



NATIONWIDE RETIREMENT INSTITUTE®

2019 Tax-Efficient Retirement Income (TERI) Study

November 2019
Summary of key findings

Methodology

This online survey was conducted April 18 to May 7, 2019, among a targeted subset of the U.S. population: 1,301 U.S. adults age 50 or older, who currently collect or plan to collect Social Security benefits, have at least \$150K in investable assets and fall into one of the following groups:



Future retirees
(n=435)



Recent retirees
(n=440)



10-year + Retirees
(n=426)

Taxes on retirement income can be complex, and retirees expect help from advisors



1. Confusion

- Survey respondents feel comfortable in their knowledge about taxes on individual financial accounts such as IRAs, stocks or their 401(k).
- Confidence slips when it comes to understanding how taxes may be affected when retirement income is drawn from multiple sources at once.



2. Evolution

- As pensions vanish and saving for retirement becomes the responsibility of workers, withdrawal scenarios are becoming more complex.
- Future retirees have a growing expectation that their advisor will explain and manage tax planning.



3. Opportunity

- Current and future retirees have concerns about the uncontrollable factors that could threaten retirement security.
- **Advisors can help by focusing on what can be controlled: taking the right steps to plan for taxes in retirement. With tax-diverse accounts in place, clients can better navigate the uncontrollable factors.**

Confusion

Identifying the knowledge gaps

The clarity: when consumers say they are confident

90%

of those surveyed report feeling in control of the retirement planning process

92%

of future retirees feel they are financially ready for retirement

Most current and future retirees report feeling knowledgeable about taxes on:

- Social Security benefits (90%)
- IRAs (84%)
- Retirement accounts through employers (73%)
- Employer pension income (73%)
- Individual securities (71%)



The fog: when consumers are less confident

28%

of those surveyed agreed with the statement **“I am terrified of what taxes will do to my retirement income”**

Among future retirees alone,

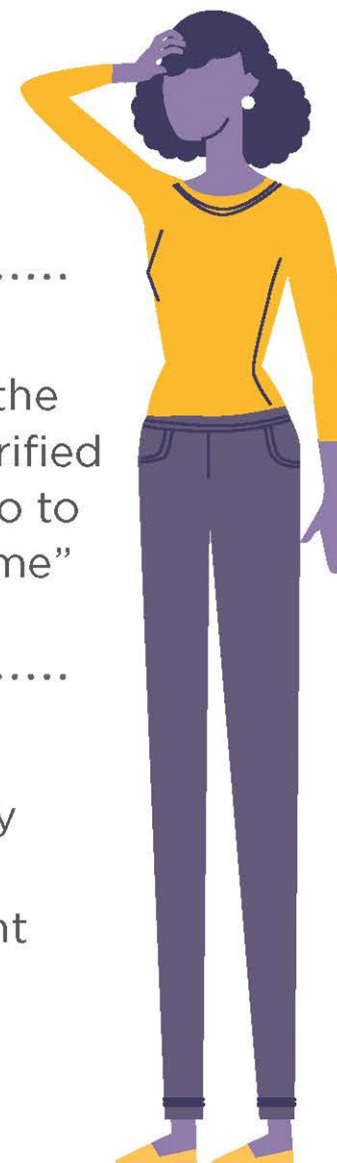
**almost
4 in 10**

(38%) agreed with the statement “I am terrified of what taxes will do to my retirement income”

Despite this fear,

**nearly
2 in 5**

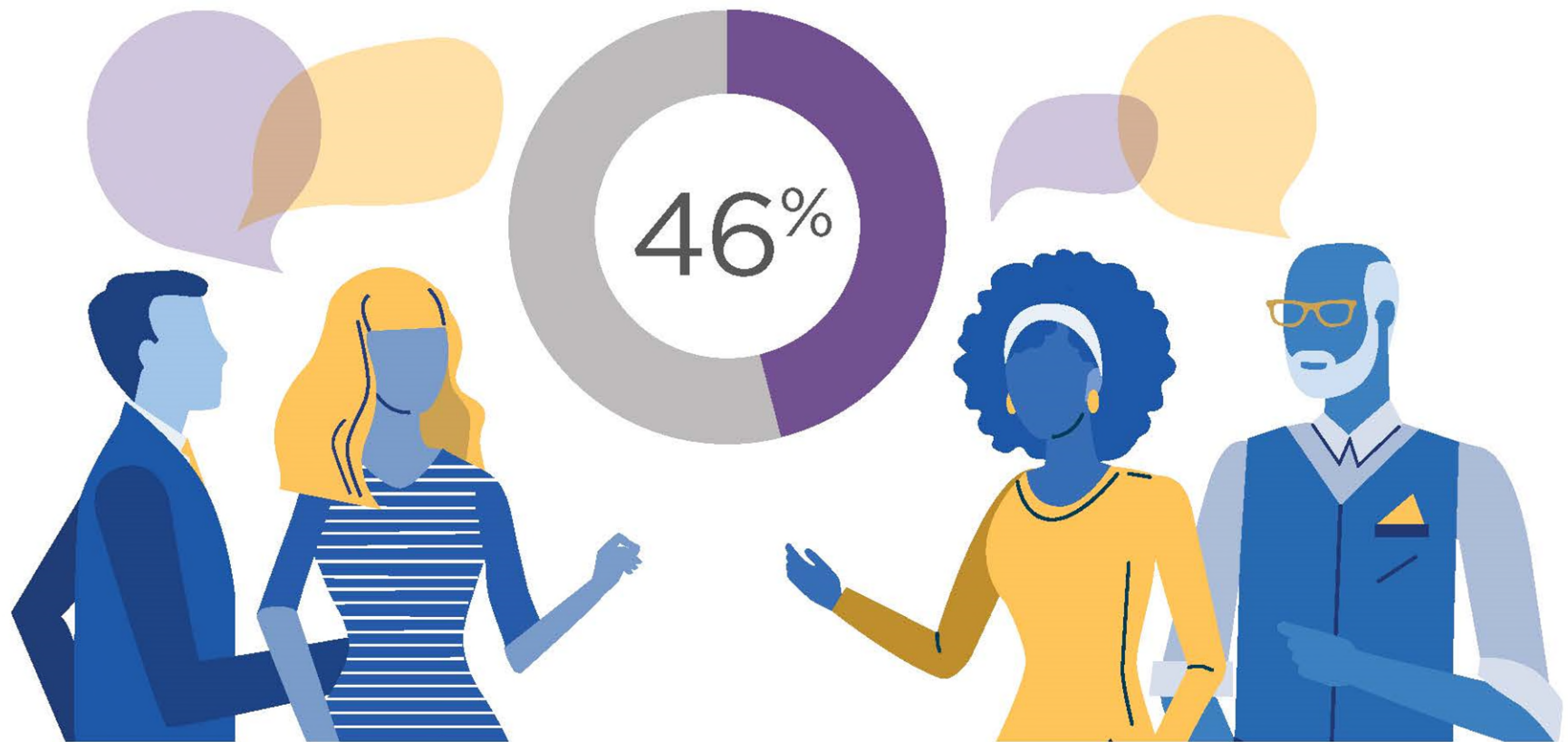
(39%) of those surveyed rarely consider the taxes they are paying or will pay in retirement



The fog: when consumers are less confident, cont'd

Less than half of those surveyed

say they know how to leverage taxable, tax-deferred and tax-free accounts



The fog: when consumers are less confident, cont'd

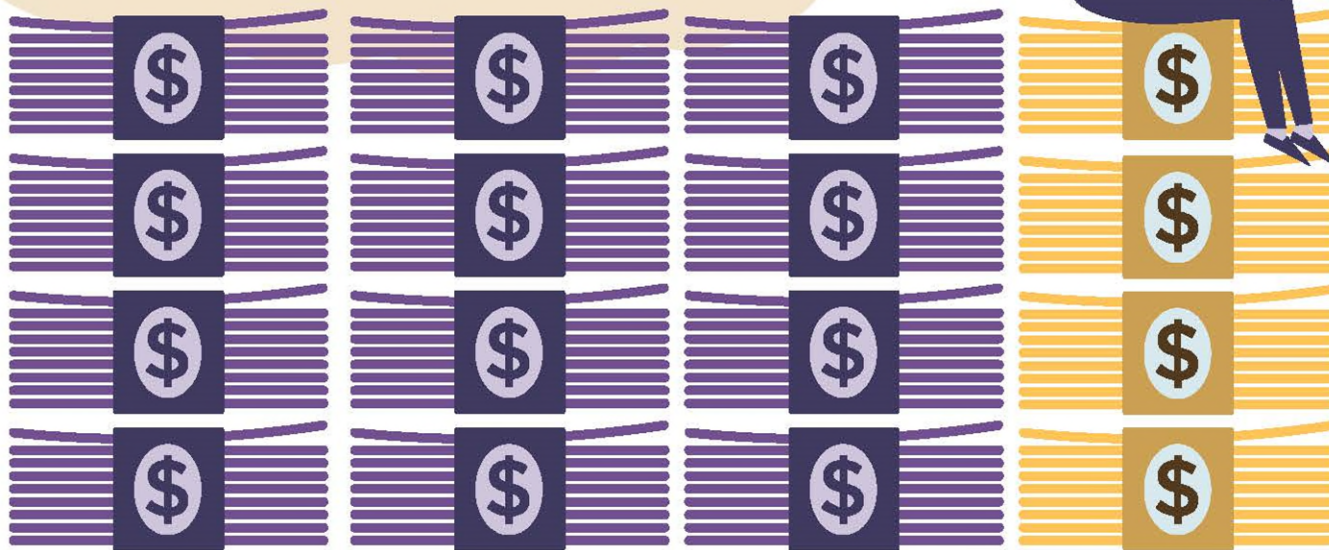
Only about 1 in 8

future retirees strongly agree that they know how to use tax planning to get a desired outcome during tax season



The fog: where consumers are less confident, cont'd

About a quarter of retirees believe they have paid several thousands of dollars more in taxes in retirement than they expected

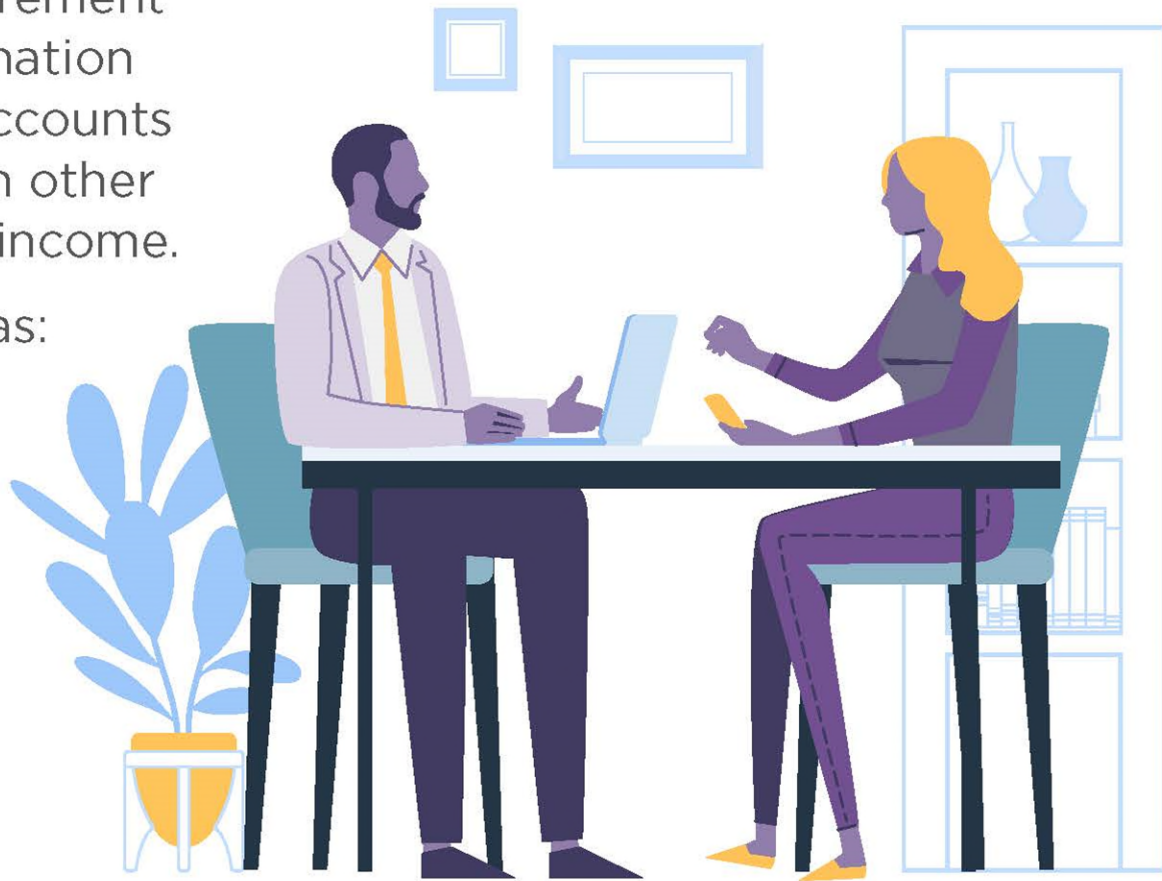


How advisors can help clear up the confusion

Spend time educating your clients about account taxation on their various sources of retirement income. Include information about how different accounts may interact with each other and potentially affect income.

Discuss sources such as:

- Social Security
- Required Minimum Distributions (RMDs)
- Medicare



Evolution

The future is looking more complex

Sources of retirement income are evolving

Primary sources of retirement income

Future retirees



Employer plan 27%
Pension 22%
Social Security 13%
Traditional IRA 11%
Other sources 27%

Retired less than 10 years



Pension 37%
Social Security 24%
Traditional IRA 12%
Employer plan 4%
Other sources 23%

Retired more than 10 years



Social Security 31%
Pension 29%
Traditional IRA 10%
Employer plan 7%
Other sources 23%

75%

of future retirees are interested in learning more about general tax planning

On a variety of topics, interest in learning more about taxes is high

Percentage of those surveyed who expressed interest:

How taxes on **Social Security** benefits could affect retirement income **64%**

How **Medicare** surcharges could affect retirement income **64%**

Tax impact of RMDs from retirement accounts **62%**

How **capital gains** taxes could affect retirement income **60%**

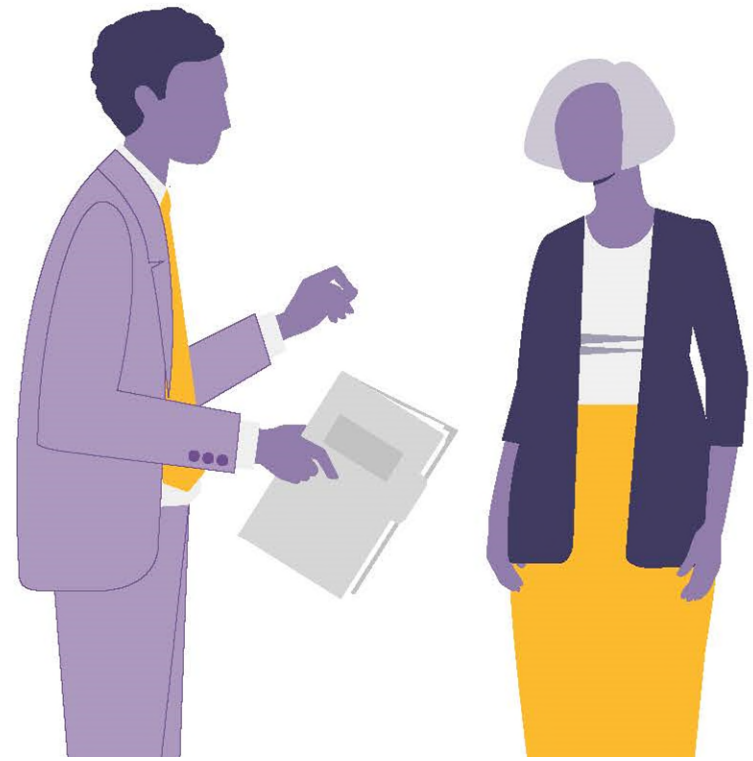
Talking with a financial advisor is the preferred way to learn about retirement planning

Top 3 preferred sources among all survey respondents:

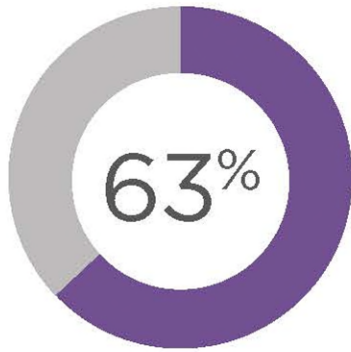
- **Financial advisor (57%)**
 - Printed reading materials (46%)
 - Independent research online (45%)
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Likelihood to use a financial advisor for tax efficiency information:

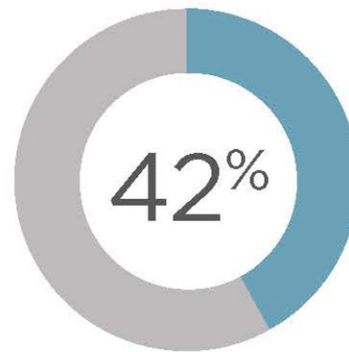
- **Future retirees (50%)**
- Recent retirees (44%)
- Retired 10+ years (37%)



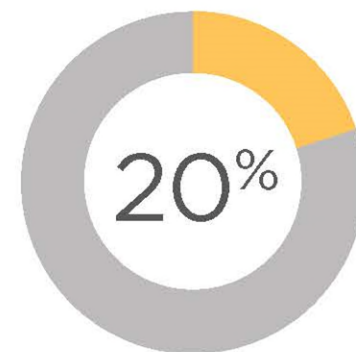
There is an increasing demand from clients for advisors to help with retirement tax planning



Nearly 2 of 3 future retirees are looking to a financial advisor to help with tax planning



More than 2 in 5 future retirees would switch financial advisors for someone who could help them plan for taxes in retirement



1 in 5 of those surveyed currently get no tax planning advice

How to evolve with the changing scene

Advisors are increasingly being asked to help solve the withdrawal puzzle. And that's not likely to change, because future retirees are more likely to use financial advisors than current retirees. For advisors helping clients with complex retirement income tax scenarios, Nationwide offers resources and consultative support.

- Retirement Institute Thought Leadership Consultants
- Nationwide Retirement Institute Planning Team
- Advanced Consulting Group
- Continuing education classes
- Client seminars
- Client conversation starters



Uncontrollable factors that worry clients

As an advisor, you have a lot of variables you are trying to change from uncertain to certain, but there will always be factors no one can control. Here are the top five uncontrollable factors survey respondents are worried about.



- 1 Cost of health care (61%)
- 2 Effect of market volatility on retirement income (57%)
- 3 Potential need of long-term care (56%)
- 4 Impact of inflation on retirement income (55%)
- 5 Unplanned medical expenses (48%)

Controllable factors that worry clients

Despite 90% of survey respondents feeling that they are in control of their retirement planning, certain controllable aspects of retirement still have them worried. All respondents showed some degree of concern, and worry is greater for future retirees.



Future retirees

Maintaining their lifestyle in retirement (49%)

Understanding how various sources of retirement income are taxed (42%)

Budgeting in retirement (34%)

How to help clients take control

There is an opportunity for advisors to take the lead in educating clients about integrating tax planning into a withdrawal strategy. This is particularly important for future retirees, who may face different tax laws when they retire than those in place today, and who are more likely to have complex retirement income scenarios.



You can help your clients:

- Achieve tax diversity through various account types, giving them the flexibility to cope with changes in tax laws
- Understand how various accounts interact with each other when withdrawals are taken
- Take taxes into account when planning retirement income

Next steps

Talk with your clients about how tax efficiency and diversification are important aspects of a comprehensive retirement income plan.



For additional resources, visit www.nationwidefinancial.com/RetirementIncomeSurvey or call the Nationwide Retirement Institute Planning Team at **1-877-245-0763**.



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Research participants were drawn from from The Harris Poll's research sample partners. Because the sample is based on those who were invited to participate in a panel (and not random), we cannot calculate estimates of theoretical sampling error. The sample of all U.S. respondents aged 50+ was weighted to the U.S. population of adults aged 50+ by age, gender, race/ethnicity, education, region, household income and retirement status.

The survey compares attitudes among three key groups:

- Affluent future retirees: consumers age 50+ with at least \$150,000 in investable assets, who plan on retiring in the next 0-10 years.
- Recent retirees: consumers age 50+ who retired 0-10 years ago.
- 10-years + retirees: consumers age 50+ who retired more than 10 years ago.

Data are weighted where necessary by age, gender, race/ethnicity, region, education, income, marital status and propensity to be online to bring them in line with their actual proportions in the population. This material is not a recommendation to buy, sell, hold or roll over any asset, adopt an investment strategy, retain a specific investment manager or use a particular account type. It does not take into account the specific investment objectives, tax and financial condition or particular needs of any specific person. Investors should discuss their specific situation with their financial professional.

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